MOOSE LAKE LOGGERS LTD.

ANNUAL REPORT

1986-87

MOOSE LAKE LOGGERS LTD.

BOARD OF DIRECTORS

Clement Jones - Chairperson
Manager - Ducks Unlimited

H. Holmgren
President, E. Holmgren & Sons

R. Grey
Foreman, Moose Lake Loggers Ltd.

H. Boyle
Regional Manager, Department of Natural Resources

L. Easter
Band Member, Moose Lake Indian Band

J. Martin
Welder, Moose Lake Community

J. Mercredi
Logger, Moose Lake Loggers Ltd.

G. P. Trithart
Director, Corporate Projects
Department of Northern Affairs

OFFICERS

Clement Jones
President

R. J. Kivisto
General Manager

G. P. Trithart
Secretary-Treasurer

HEAD OFFICE, Moose Lake, Manitoba

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The Year Ended March 31, 1987

ANNUAL REPORT - MOOSE LAKE LOGGERS LTD.

APRIL 1, 1986 - MARCH 31, 1987

I. INTRODUCTION

Moose Lake Loggers Ltd. is a Crown Corporation formed in 1971 under the authority of the Manitoba Natural Resources Development Act for the purpose of establishing an economically viable logging operation providing employment for residents of Moose Lake and surrounding areas. The Corporation also has a mandate to train local residents to fill the jobs created, with the ultimate goal being management by local residents.

The Company uses skidders to harvest sawlogs and pulpwood for sale to Manfor Ltd. in The Pas. Most of the Company's employees are native people from Moose Lake, Manitoba, a community located near valuable forestry resources but with a traditionally serious lack of employment opportunities.

II. MAJOR DEVELOPMENTS

Following six years of continuous losses to March 31, 1977 (the accumulated total of which was $551,000), the Company has experienced profits in six of the last ten years of operation as follows:

Year Ending March 31st.	Profit (Loss)
1987	$ 71,488
1986	(11,617)
1985	37,952
1984	(51,042)
1983	1,029
1982	(98,286)
1981	127,544
1980	(18,306)
1979	54,420
1978	52,994

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Despite the many operational problems which have been encountered over the past ten years and a soft world market in more recent times, the Company is encouraged with its performance which no longer relies on Government subsidy.

Credit for this performance must be attributed largely to the General Manager, Mr. Reino Kivisto, and his staff who have worked tirelessly with the Company's Board of Directors and the Community of Moose Lake. The people of Moose Lake have also genuinely participated in the Company's success through their representation on the Board of Directors, the support provided by their elected leaders, and most importantly, through the hard work of the Company's employees from Moose Lake.

Mr. Frank Marvin, a director since the Company's inception, died during the year under review. His fair and firm stewardship including encouragement given to local directors to participate in difficult decision processes will be missed.

The Company successfully completed a contract with Manfor Ltd. to plant 500,000 seedlings. The project enabled residents of Moose Lake as well as employeees to participate in the jobs created.

Production now originates from twenty-six owner/operated skidder machines, of which eighteen are owned by Native entrepreneurs from the area. Owner/Operators are individuals who own and operate their own skidder utilizing a two or three man crew. Once a local resident has developed the necessary skills and demonstrated a willingness to be a steady employee, the Company encourages him/her to become an owner/operator.

III. REVIEW OF RESULTS

A. Financial Results

Appended to this report are the Provincial Auditor's audited financial statements for the year ended March 31, 1987. These statements report a profit of $71,488 for 1986-87 compared to a loss of $11,617 for the previous year.

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Major items of change in operating costs include an increase of $28,691 in insurance costs, offset by a decrease of $22,309 in fuel costs and a general restraint process undertaken by the Company. The profit of $21,346 in tree planting does not include those camp costs which are of a fixed nature and which would have occurred without this project.

Workers compensation costs increased by $11,059 to $41,059, however, these costs did not come into effect until October, 1985. On a per cord basis, this cost is $0.73 compared to $0.53 in the prior year, based on annual production figures.

The following table illustrates per cord costs for major expenditure categories over the past three years:

Cost Category	1984-85	1985-86	1986-87
Wages & Benefits	$ 30.38	$ 33.01	$ 33.00
Equipment	10.85	11.37	11.58
Fuel	3.28	3.32	2.95
Total Direct Logging	37.31	39.28	39.01
Total Camp Operations	11.32	11.80	11.54
Total Administrative	4.00	4.41	4.29

The following table provides key results of the Company for the last ten fiscal years:

Year Ending March 31st	Production Revenue	Wages & Fringe Benefits	Owner/Operator Rentals	Employment
1987	$3,009,509	$1,923,197	$643,167	74
1986	2,992,638	1,869,171	641,692	74
1985	3,226,525	1,930,131	689,111	74
1984	2,421,091	1,578,101	515,286	74
1983	2,782,529	1,658,611	549,773	68
1982	2,587,539	1,662,882	563,575	67
1981	2,809,289	1,689,121	587,374	68
1980	2,077,031	1,343,031	396,453	59
1979	1,952,382	1,262,000	319,779	57
1978	1,943,545	1,285,000	214,663	58

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B. Production

Production in fiscal year 1986-87 was 56,072 cords, a decrease of 562 cords from the previous year.

A comparison of annual production, in cords, for the last ten years is provided in the following table:

Year Ending March 31st	Company Skidders	Owner/ Operators	Total
1987	-	56,072	56,072
1986	-	56,634	56,634
1985	-	63,545	63,545
1984	-	49,200	49,200
1983	-	57,011	57,011
1982	-	65,532	65,532
1981	-	81,564	81,564
1980	-	68,034	68,034
1979	14,989	51,167	66,606
1978	21,450	39,540	60,990

Manfor Ltd. is the sole outlet for the Company's production. For the sixth consecutive year, Manfor's wood requirements have resulted in contract cutbacks from this Company's normal production capacity of 72,000 cords.

While absenteeism continues to be troublesome, contract cutbacks by Manfor Ltd. have been the major problem over the past six years.

C. Related Activities

Employment remains constant at 74 employees. Approximately 80% of those employed are Native residents of Moose Lake, Cormorant, Cranberry Portage and The Pas. Excluding The Pas, there is little or no alternate employment in these communities, except for traditional commercial fishing and trapping which is seasonal at best. Included in the 74 employees are 59 piece workers, 7 hourly and 8 salaried staff. The average annual salary in 1986-87 for logging was $24,769 compared to $25,259, $26,083 and $21,326 in the three consecutive prior years.

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The Company maintains a store facility which provides a variety of clothing, confectionery items and saw parts for employees. Parts and service for owner/operators are also provided although some owner/operators have developed to the stage where they operate quite independently from the Company.

D. Training

The Company continues to provide on-the-job training. This training has produced the following favourable results in office and support staff:

	Total Staff		Native Staff	
	1985/86	1986/87	1985/86	1986/87
Office	3	3*	3	3*
Foremen	3	3	3	3
Kitchen and Dorms**	7	7	7	7

* One part-time

** Six are females

Manitoba

Office of the Provincial Auditor

MOOSE LAKE LOGGERS LTD.

Auditor's Report and Financial Statements
for the year ended March 31, 1987

Manitoba

MOOSE LAKE LOGGERS LTD.

REPORT OF THE PROVINCIAL AUDITOR'S OFFICE

We have examined the balance sheet of Moose Lake Loggers Ltd. as at March 31, 1987 and the statements of retained earnings, revenues and expenditures, and changes in financial position, and the schedule of operating expenditures for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the Company as at March 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

F. H. Jackson, CA,
Provincial Auditor.

September 24, 1987,
Winnipeg, Manitoba.

MOOSE LAKE LOGGERS LTD

Balance Sheet
as at March 31, 1987
(with 1986 figures for comparison)

Exhibit A

ASSETS

	1987	1986
Current assets:		
Short term deposits	$ 125,000	$ 50,000
Accounts receivable:		
Trade	400,012	339,389
Employees	39,752	11,350
Government of the Province of Manitoba	2,960	-
	442,724	350,739
Loans receivable from sub-contractors re purchase of equipment - unsecured	46,808	74,736
Inventories, at cost	46,589	58,659
Prepaid expenses	29,486	2,132
Total current assets	690,607	536,266
Fixed assets, at cost: (Note 4)		
Buildings and trailers	509,829	509,829
Less accumulated depreciation	403,878	359,988
	105,951	149,841
Equipment	259,129	244,508
Less accumulated depreciation	197,681	197,441
	61,448	47,067
Other assets, at cost: (Note 4)		
Campsite improvements	95,197	90,579
Less accumulated amortization	52,385	37,107
	42,812	53,472
Main road construction	235,321	235,321
Less grants received	156,000	156,000
	79,321	79,321
Less accumulated amortization	77,061	71,454
	2,260	7,867
Total fixed and other assets	212,471	258,247
	$ 903,078	$ 794,513

Approved by the Board:

Director _____

Director _____

LIABILITIES AND SHAREHOLDERS' EQUITY

	1987	1986
Current liabilities:		
Excess of outstanding cheques over bank balances	$ 108,367	$ 67,082
Bank demand loan (Note 5)	70,000	110,000
Accounts payable and accrued liabilities:		
Trade	108,963	64,114
Government of the Province of Manitoba	12,520	13,135
Wage deductions	73,174	65,964
Employees	27,786	43,438
	222,443	186,651
Total current liabilities	400,810	363,733
Shareholders' equity:		
Capital stock (Note 2):		
Authorized - 35,000 common shares for a maximum consideration of $350,000		
Issued and fully paid - 30,009 common shares	300,090	300,090
Contributed surplus:		
Grant from the Government of Canada towards capital expenditures	5,720	5,720
Retained earnings, Exhibit B	196,458	124,970
Total shareholders' equity	502,268	430,780
	$ 903,078	$ 794,513

Exhibit B

MOOSE LAKE LOGGERS LTD.

Statement of Retained Earnings
for the year ended March 31, 1987
(with 1986 figures for comparison)

	1987	1986
Balance, beginning of year	$ 124,970	$ 136,587
Plus: Revenues over (under) expenditures, Exhibit C	71,488	(11,617)
Balance, end of year, Exhibit A	$ 196,458	$ 124,970

MOOSE LAKE LOGGERS LTD.

Statement of Revenues and Expenditures
for the year ended March 31, 1987
(with 1986 figures for comparison)

	1987	1986
Revenues:		
Log cutting contract - Manfor Ltd.	$ 3,009,509	$ 2,992,638
Commissary sales	358,100	309,355
Board charges	59,310	55,216
Trainee reimbursement	-	23,497
Road maintenance	18,047	16,191
Interest income	3,113	11,802
Accounting service fees	3,150	2,900
Tree planting	129,620	-
Miscellaneous	1,157	4,872
Total revenues	3,582,006	3,416,471
Expenditures, Exhibit E:		
Log cutting contracts	2,187,597	2,224,108
Camp operations	974,005	954,730
General and administrative	240,642	249,250
Tree planting	108,274	-
Total expenditures, Exhibit E	3,510,518	3,428,088
Revenues over (under) expenditures, Exhibit B	$ 71,488	$ (11,617)

Exhibit D

MOOSE LAKE LOGGERS LTD.

Statement of Changes in Financial Position
for the year ended March 31, 1987
(with 1986 figures for comparison)

	1987	1986
Cash Provided By (Used For):		
Operating Activities:		
Net profit (loss)	$ 71,488	$ (11,617)
Item not involving cash		
Depreciation and amortization	87,000	94,434
	158,488	82,817
Net change in non-cash working capital balances related to operations	(43,549)	(141,849)
	114,939	(59,032)
Financing activity:		
Reduction in long term debt-conditional sales agreement	-	(88,350)
Investing activities:		
Additions to fixed assets	(45,474)	(54,097)
Net proceeds from disposals of fixed assets	4,250	25,661
	(41,224)	(28,436)
Increase (decrease) in cash	73,715	(175,818)
Cash (Deficiency) At Beginning Of Period	(127,082)	48,736
Cash Deficiency At End Of Period	$ (53,367)	$(127,082)
Represented by:		
Short term deposits	$ 125,000	$ 50,000
Bank demand loan	(70,000)	(110,000)
Outstanding cheques	(108,367)	(67,082)
	$ (53,367)	$(127,082)

MOOSE LAKE LOGGERS LTD.

Schedule of Operating Expenditures
for the year ended March 31, 1987
(with 1986 figures for comparison)

	1987	1986
Log cutting contracts:		
Wages and benefits	$ 1,444,900	$ 1,451,408
Equipment rental	643,167	641,692
Fuel and oil	65,407	82,876
Miscellaneous supplies	16,263	29,669
Repairs and maintenance	17,860	18,419
Insurance	-	44
Exhibit C	2,187,597	2,224,108
Camp operations:		
Wages and benefits	252,219	270,207
Provisions	110,122	108,296
Fuel and oil	89,608	92,237
Repairs and maintenance	78,381	89,263
Depreciation	73,936	79,185
Freight	3,785	10,219
Insurance	31,142	6,196
Amortization - main road	5,607	5,663
Interest on conditional sales agreement	-	4,621
Equipment rental	2,159	2,285
	646,959	668,172
Commissary - cost of sales	327,046	286,558
Exhibit C	974,005	954,730
Carried forward	$ 3,161,602	$ 3,178,838

MOOSE LAKE LOGGERS LTD.

Schedule of Operating Expenditures
for the year ended March 31, 1987
(with 1986 figures for comparison)

	1987	1986
Brought forward	$ 3,161,602	$ 3,178,838
General and administrative:		
Wages and benefits	135,790	147,556
Health and post secondary education tax levy	23,966	24,807
Professional fees	15,445	14,599
Fuel and oil	10,429	12,640
Depreciation	6,167	8,024
Directors' fees and salaries	6,685	7,372
Directors' travel	4,922	7,073
Communications	3,639	4,532
Insurance	7,292	3,547
Stationery and supplies	2,965	3,544
Travel	5,688	3,544
Repairs and maintenance	5,724	3,363
Bad debt expense	-	639
Miscellaneous	4,795	8,010
Profit sharing plan	7,135	-
Exhibit C	240,642	249,250
Tree planting:		
Wages and benefits	90,288	-
Health and post secondary education tax levy	1,155	-
Fuel and oil	656	-
Tools and bags	5,699	-
Equipment maintenance	4,527	-
Bus and trucks	3,780	-
Miscellaneous	2,169	-
Exhibit C	108,274	-
Total expenditures, Exhibit C	$ 3,510,518	$ 3,428,088

MOOSE LAKE LOGGERS LTD.

Notes to Financial Statements
for the year ended March 31, 1987

1. Significant Accounting Policies

The following is a summary of the significant accounting policies of the Company.

Fixed assets:
Fixed assets are stated at cost. It is the company's policy to provide for depreciation and amortization of fixed assets on the basis shown in Note 4.

Revenue recognition:
Pulpwood sales are recognized on the basis of pulpwood delivered to roadside and scaled, in accordance with the terms of the sales contract.

2. Capital Stock

The issued shares are held by the Government of the Province of Manitoba except for nine shares which are held by the appointed directors in trust for Her Majesty the Queen in right of the Province of Manitoba.

3. Services Provided by the Government of the Province of Manitoba

The Government of the Province of Manitoba provides the services of the Secretary-Treasurer and other miscellaneous administrative services at no charge to the Company. The cost of these services is approximately $32,000 (1986 - $30,000). The Government of the Province of Manitoba has previously provided Workers Compensation coverage for Company staff at no charge to the Company. Effective October 1, 1985 the Company agreed to pay the lesser of $5,000 per month or actual costs billed to the Government of the Province of Manitoba. The total cost to the Company was $41,059 (1986 - $30,000). Actual costs paid by the Government of the Province of Manitoba to the Workers Compensation Board on the Company's behalf were $51,120 (1986 - $265,326).

4. Fixed Assets and Other Assets

The Company depreciates its fixed assets and amortizes its other assets on the following basis:

	Annual Rate
A) Depreciation	
a) Straight line	
Buildings	10-33 1/3%
Trailers	15-33 1/3%
Equipment	20-33 1/3%
b) Diminishing balance	
Trucks	30%
B) Amortization	
a) Straight line	
Campsite improvements	12 1/2 - 33 1/3%
b) Other	
Main road construction	10 cents per cord sold

MOOSE LAKE LOGGERS LTD.

Notes to Financial Statements
for the year ended March 31, 1987

5. Bank Demand Loan

The bank demand loan is guaranteed by the Government of the Province of Manitoba to a maximum of $500,000 including unpaid interest.

6. Economic Dependence

The Company is economically dependent on the Government of the Province of Manitoba and Manfor Ltd., which is wholly owned by the Government of the Province of Manitoba.

7. Comparative Figures

Certain figures for the preceding period, as set out in the Statement of Changes in Financial Position - Exhibit D, have been reclassified to conform with the presentation adopted for this Statement in 1987.